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SENSITIVE
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DEPARTMENT PASS TO USTR FOR PATRICK COLEMAN, BARBARA GRYNIEWWICZ
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SUBJECT: ETHIOPIA SEEKS DRAMATIC CHANGE IN AGRICULTURAL LAND USE

REF: Addis Ababa 2809

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SENSITIVE BUT UNCLASSIFIED. PROTECT ACCORDINGLY.
SUMMARY.

¶1. (SBU) SUMMARY. All land in Ethiopia is owned by the government. Farmland is leased long-term to individuals (95 percent) and companies (5 percent). Having determined that (1) vastly more acreage must be brought into agricultural production, (2) existing farmland must be made much more productive, and (3) the public sector cannot fully finance needed modernization, the Government of Ethiopia (GoE) is actively seeking domestic and foreign investment.

The GoE has especially sought recently to attract investors to develop large commercial farms in the belief that these farms have potential to dramatically boost total agricultural output, employment, technology transfer, and foreign exchange reserves. A new directorate within the agriculture ministry (MoARD) has been charged with negotiating leases over two years to add at least 7.4 million acres of land to an existing 45 million acres of cultivated land out of a total of 183 million arable acres (all figures are GoE estimates). So far, the directorate has finalized only three deals involving a total of 42,000 acres and has other deals pending that would bring that total to 220,000 acres. The directorate has served notice, however, that the pace of deals is about to rapidly accelerate. This apparent rush to lease so much farmland, much or all of it to foreign interests, during a time of worsening food insecurity should raise concern within the donor community about GoE motivations and negotiating capacity. It appears that historical patterns of agricultural production in Ethiopia are about to change dramatically. What the effect this change will have on Ethiopia's capacity to feed its population and on its overall economic development is unclear. USAID already has a well-established agricultural development program and plans to engage the new directorate to seek ways the USG can assist in line with the new Global Hunger and Food Security Initiative. END SUMMARY.

CABLE GENESIS

¶2. (SBU) In order to investigate "agro-imperialism" claims made in recent Washington Post and New York Times articles, Econoff and

local Economic and Commercial Specialists met with a variety of stakeholders on November 30 through December 2. Contacts included: Bezualem Bekele, Agricultural Economist in MoARD's Agricultural Investment Support Directorate; Haileselassie Tekie, Director General, Ethiopian Horticulture Development Agency (EHDA); Mafa Chipeta, The United Nations Food and Agriculture Organization (UNFAO) Representative in Ethiopia; Achim Fock, Senior Economist for Agriculture and Rural Development, World Bank; Ram Karuturi, Managing Director of Karuturi Global Ltd.; Hussen Ahmed, Managing Director, Farm Organic International PLC; USAID officials and agricultural implementing partners; and U.S. investors in Ethiopia.

ETHIOPIA'S AGRICULTURAL PROFILE ...

13. (SBU) All land in Ethiopia is government owned. The 1994 Constitution proclaims "Land is a common property of the Nations, Nationalities and Peoples of Ethiopia and shall not be subject to sale or to other means of exchange." The transfer of land use rights is accomplished only through long-term lease arrangements (up to 99 years) between the GoE as lessor and individual or corporate licensees. Agricultural investment has for many years been the cornerstone of the GoE's development policy, as agriculture comprises 45 percent of Gross Domestic Product, and 85 percent of Ethiopia's 80 million residents live in rural areas. The GoE estimates Ethiopia's arable land at 183 million acres with 45 million acres under cultivation of which 42.75 million acres is made up of small-scale domestic farms which yield negligible quantities of crops for export. The remaining 2.25 million acres comprises larger-scale commercial farms with the majority of that acreage farmed by foreign investors. Thirty million of the 45 million cultivated acres is devoted to cereals, which have been subject to a GoE export ban since 2007. (COMMENT: All GoE figures regarding agricultural production are suspect. The above figures can be

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sourced to our contacts within the GoE and are reasonable estimates but are not robust. It is safe to say that the GoE's traditional focus on small-scale farming has resulted in very little acreage producing crops for export. END COMMENT.)

... AND RAPIDLY EVOLVING POLICY

14. (SBU) Prime Minister Meles Zenawi summarized GoE agricultural policy objectives in a December 2 television interview as: 1) increasing productivity of small-scale farms and 2) expanding large-scale commercial farming in order to increase overall production and generate sorely needed foreign exchange. The GoE reports that arable but uncultivated lands most suitable for large commercial farms are primarily available in the less populated lowland regions of Beneshangul Gumuz, SNNPR, Gambela, Somali, and Afar but readily adds that these areas require significant investment to improve the infrastructure, develop irrigation schemes, and undertake research to identify suitable crops. Many of these same land areas had been identified in the recent past as potential agricultural lands for implementing the GoE's resettlement program.

15. (SBU) Agriculture Minister Tefera Deribew recently said publicly that GOE large-scale farm investment policy is focused on increasing productivity, boosting technology transfer, and creating jobs. Early in 2009, MoARD formed the Agricultural Investment Support Directorate and charged it with securing delegations of authority from regional government to administer land on their behalf, and negotiating with investors interested in large-scale operations of over 12,500 acres. Prime Minister Meles stated in his December 2 interview, "we were condemned for not doing this in the past" and the GoE is stepping in now due to a lack of capacity at the regional government level. Meles went on to say the GoE will assist regional governments with capacity building and the regional governments will take over these large land allocations in the future. The GoE tasked regional governments with verifying that land identified by MoARD mapping as physically suitable for large-scale farming was in fact unoccupied and otherwise available for development. The directorate is to solicit investment proposals for land so vetted.

MoARD Agricultural Economist Bezualem Bekele presented Econoff with a land request form checklist issued for use by potential investors.

Required checklist items include: destination market breakdown between domestic/foreign, expected employment numbers, articles of association, investment license, company profile, letter of interest to pay a one-year lease (companies must pay this up front), bank statements, land use plan, action plan of project, letter to conduct environmental audit report, work/resident permits.

¶6. (SBU) To date, the directorate has identified 7.4 million acres of presently uncultivated land that it plans to offer to large-scale commercial farm investors over the next two years. The GoE has fully verified with the regional governments that 4.9 million acres is ready for investment and has identified an additional 2.5 million acres that regional authorities are continuing to review. This land is located in the sparsely populated regions of Beneshangul Gumuz (about 2 million acres), Gambela (about 1.5 million acres), and SNNPR and is envisioned as ripe for cultivation of coffee, cotton, sesame, sugarcane, tea, and palm oil. Bekele stated that populated regions like Oromia are still under review due to the complex issues faced in those areas. He emphasized several times to Econoff that compensation payments were not needed to parcel off the verified land areas, as neither local citizens nor livestock were being displaced. Bekele said that less than 200,000 acres had been assigned or were under active negotiation out of the newly identified 7.4 million acres and that only three agreements had been finalized to total 42,000 acres and another seven to ten agreements were under discussion.

¶7. (SBU) Bekele told Econoff the GoE's expectation is that domestic and foreign agricultural investment in large-scale commercial farms will result in increased production for domestic consumption as well as export. He said the GoE is not solely focused on export earnings but also concerned about domestic food security. He said GoE strategy is to seek investment by making land available at attractive rental prices and offering incentives such as tax

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holidays, duty-free import of capital goods, and grace periods of up to seven years on land rents. He conceded that outside investment is needed to boost agricultural development in part because Ethiopian law determines that government-owned land (i.e., all land) cannot be used as collateral for the financing of improvements to farmland.

WHO IS INVESTING?

¶8. (SBU) While the GoE has recently started an increased push for large-scale agricultural investment, this policy is not entirely new. The GoE has granted 9,200 commercial farm investors licenses since 1996. Of this number, 1,300 licenses were issued to foreigners. According to data from the Ethiopian Investment Agency (EIA), foreign agricultural investment started to ramp up in 2006, jumping from USD 508 million in 2005 to USD 1.9 billion in 2006 (using the current exchange rate of 12.6 Birr/USD). The total stock of foreign agricultural investment from July 1992 through September 30, 2009 was USD 7.1 billion, with over 87 percent of that investment coming since 2006. Most of this investment has come from Asia/Middle East and Europe, comprising 57 percent and 18 percent, respectively, of investment ranging from the pre-implementation stage to the operational stage. India, Saudi Arabia, Israel, the United Arab Emirates, and Pakistan are the largest Asian and Middle East investors. Germany, the Netherlands, and the UK are the largest European investors. India is by far the leading investing country at about 30 percent of the total stock (USD 2.1 billion). U.S. investment totals 9 percent (USD 651 million) and edges out Saudi Arabian investment at 8 percent (USD 540 million). Much of the U.S. investment involves Ethiopian Diaspora investors.

¶9. (SBU) Indian firm Karuturi Global Ltd. and press reports cite Indian agricultural investment in Ethiopia at over USD 4 billion, which is double the figure provided by the EIA. This investment is primarily in flowers, sugar, sesame, and cotton production. Karuturi Global runs one of the largest agricultural operations in Ethiopia. The company has about 27,000 acres in Oromia and 741,000

acres in Gambela on a 45-year lease. Ram Karuturi, Managing Director, told Econoff he looked to invest in 247,000 acres three years ago, but the GoE encouraged him to take 741,000 acres. (COMMENT: Comparing Karuturi's holdings to the estimated 2.25 million total Ethiopian acres devoted to large-scale commercial farms (paragraph 4), it becomes evident that Karuturi may well be Ethiopia's largest commercial farming operation. END COMMENT.) Karuturi's farms are starting to grow maize, cereal crops, oilseeds, sugarcane, and palm oil on top of its already established flower business. Apart from exported flowers, these crops are largely targeted at the Ethiopian and the Common Market for Eastern and Southern Africa (COMESA) market. (Note: Karuturi recently ordered USD 24 million in U.S. equipment from John Deere and seeks to order about USD 100 million in additional equipment in the coming year. End Note.)

¶10. (SBU) Saudi investors are primarily investing in rice and livestock feed (e.g., alfalfa) production according to Bekele. According to press reports, Sheikh Mohamed Al Amoudi's Saudi Star Agricultural Development has recently made a large investment in Ethiopia to begin rice production in Gambela. It has started with 25,000 acres, but plans to rapidly expand. Although Saudi Star plans to export rice to Saudi Arabia, evidently assuming it can circumvent the cereals export ban, the company also plans to sell a variety of crops to the local market. (NOTE: Saudi Star recently paid USD 80 million for U.S. agricultural machinery and equipment from Caterpillar to develop its farming operations. END NOTE.)

HOW WILL THIS INVESTMENT AFFECT FOOD SECURITY?

¶11. (SBU) The United Nations Food and Agriculture Organization (UNFAO) Representative in Ethiopia Mafa Chipeta argued to Econoff that three conditions were needed to ensure a stable and attractive domestic market: 1) predictable levels of food aid that gradually reduce over time; 2) established price floors to flatten out the

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fluctuations due to the seasonality of agricultural products (which the GoE is against); and 3) additional development and investment incentives for "middle ground" farmers and cooperatives mainly to facilitate the transfer of technology. He also advocated a three-way partnerships to address food security, which would include Gulf state money, East African land, and the technology and management skills of another party such as the United States.

CONCERNS GOING FORWARD

¶12. (SBU) While most private sector and international economists Post contacted agreed the GoE's overt push for large-scale commercial farm investment is a step forward, they voiced concerns:

¶1A. Saudis exempt from rules? Questions remain about contract terms between the GoE and Saudi investors. Sheikh Al Amoudi enjoys a special relationship with the GoE and reportedly deals directly with Prime Minister Meles. On the surface, it appears basic rules, such as the ban on grain exports from Ethiopia, do not apply to the Saudis.

¶1B. Land lease rate changes. Bekele told Econoff his Agricultural Investment Support Directorate is undertaking a study of land prices across the country. The GoE's concern is that some investors are paying high prices for land (e.g., USD 321 per acre in Oromia) while others are paying low prices (e.g., USD 35 cents per acre in Amhara). Bekele said prices will probably be set based on proximity to Addis Ababa and, after the study is complete, the GoE plans to introduce legislation to revise all land lease terms. This legislation could be approved in the next three to six months according to Bekele. When Econoff asked current investors about the possibility of the GoE increasing their lease rates, one investor said he would sue the GoE while the other said he would just leave the country.

¶1C. No such thing as virgin land. Both UNFAO and World Bank officials told Econoff there is no completely unused land in

Ethiopia. Almost all "unutilized" land that is not fenced off is used for livestock grazing, so the impact on livestock could be substantial. Ethiopia is dependent on livestock not only for milk, meat, and byproducts, but also for animal traction for plowing and transport. Livestock populations are already showing stress from being excluded from dry season pasture and water along the Awash river in the Afar region due to huge GoE farm irrigation schemes to grow sugar, cotton, and sesame. If livestock are negatively affected by becoming increasingly susceptible to drought and other environmental shocks, this would have a potentially huge impact on agricultural production in the dryer highland areas as well as loss of livelihoods in the pastoralist areas. Another challenge in this area is that many populations are semi-nomadic and shift their farming operations every couple of years. The GoE claims it is factoring these patterns into its land verification, but this traditional lifestyle could present investors with a compensation claim issue a few years down the road.

¶D. Lack of infrastructure. The regions of Beneshangul Gumuz, SNNPR, and Gambela have poor roads, electricity, and communication resources. Bekele told Econoff the Directorate is working with the Ethiopian Roads Authority to try to develop some the infrastructure in these areas. Karuturi has built his own infrastructure; however, most other investors do not have the capital to take on these large projects.

¶E. Regional backlash. A United Nations Development Programme (UNDP) official told Econoff she feared retribution by regional governments against the envisioned influx of commercial farm interests. UNDP works in a number of these regions and stated the regional governments are quite resentful of the federal government for taking over land allocation issues. In addition, on December 2, the Oromo Liberation Front issued a statement calling upon the Oromo people to stand up against the ruling party's new land deals with foreign investors.

¶F. Incomplete studies. One local agricultural investor told

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Econoff land across the country is not well studied in terms of its condition and suitability for specific crops. He also expressed concern about the sustainability of this influx of investment and the potential environmental damage. Bekele also noted the Directorate is discovering new information each day as the GoE's initial studies were based on 2006 satellite imagery and conditions have changed since that time.

POTENTIAL FOR U.S. INVESTMENT AND ASSISTANCE

¶13. (SBU) U.S. investors are active in the market and this new policy opens the door for additional U.S. investment. Robani Agricultural Enterprise has been operating a 1,200 acre farm for four years to grow wheat, corn, and vegetables. Morrell Industries is leasing 25,000 acres of land to experiment with dryland wheat farming to produce seed for the local market. In a potential investment coup for Ethiopia, U.S. giant ConAgra Foods is planning a trip to the country in December to evaluate its conditions for a large-scale tomato farm and processing plant.

¶14. (SBU) The U.S. government is currently assisting in various land policy efforts, and this new policy focus suggests additional assistance targets. USAID's Ethiopia Land Administration Project (ELAP) supports the GoE's land use and administration programs, assisting MoARD and six regional governments. ELAP is working to establish a land registration and certification system, and providing technical assistance in land valuation at the regional level. Beyond ELAP, USAID manages a portfolio of agricultural development and food security initiatives focused on helping Ethiopia achieve market-led, agriculturally-centered economic growth and to improve the food security status and resiliency of farmers and pastoralists. One program, USAID's Agribusiness and Trade Expansion Program (ATEP), is assisting the GoE with its draft code of conduct for the horticulture industry.

¶15. (SBU) Based on information from the GoE and international

economists, it appears the MoARD Directorate is poised for donor assistance. Any assistance discussions, however, would have to be approached in a delicate fashion. Prime Minister Meles admitted in his recent television interview that there are weaknesses in terms of large-scale land allocation capacity at the federal level (as well as the regional level). Kebede, the Director of the new MoARD Directorate, also confirmed this fact privately to a USAID official in early December. FAO Representative Chipeta told Econoff Ethiopia's land deals need adequate safeguards and that the investment levels discussed dwarf the GoE's agricultural management capacity. He also said any donor would need to be positive in their approach to the GoE, not critical, so that the GoE will not "clam up" and shy away from discussions. World Bank Senior Economist for Agriculture and Rural Development Achim Fock echoed this sentiment to Econoff, stating the GoE is quite sensitive about large-scale commercial farming deals and it may not openly welcome donor assistance in these contract negotiations. Fock told Econoff the Bank would continue its assistance with smallholder farmers in the highland areas, as he believes they can have the most impact with them.

COMMENT

¶16. (SBU) Most every stakeholder Econoff spoke to agreed that the GOE's increased policy focus on large scale commercial farm development is good overall. Economists, including the UNFAO, have called for growth of commercial farms in Ethiopia for years in order to boost productivity and food security. Whether these new contractual arrangements produce a win/win result for the Ethiopian people and the investors depends on the implementation details. Valid concerns loom over the desired end goals of productivity, employment creation, displacement of farmers and pastoralists, technology transfer, and foreign exchange inflows. In the end, overall food security should improve as food production increases significantly and job creation will allow more families to feed themselves. Food donors such as the U.S. have reason to watch closely these developments to ensure assistance is not serving merely to backfill production lost to export.

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¶17. (SBU) Prime Minister Meles and the GoE have historically proven to be crafty negotiators. So much so that investors have often walked away or do not even bid on privatization tenders offered by the government. Therefore, it is reasonable to assume the GoE is not "giving away the farm" during these investment negotiations and has a reasonable overall plan. That being said, the GoE does seem to be struggling with capacity issues at the new MoARD Directorate and could benefit from USG guidance. Given the USG's current relationship with MoARD on land issues and agricultural development, and prospects for increasing assistance to MoARD under the new Global Hunger and Food Security Initiative, the USG is well placed to play a role in helping the GoE to ensure current and future efforts to improve land management--including land leases--leads to positive and sustainable economic, social, and environmental outcomes. END COMMENT.